

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

FINANCIAL STATEMENTS  
with  
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2006

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# PINNOCK, ROBBINS, POSEY & RICHINS

*Certified Public Accountants • A Professional Corporation*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Sandy Suburban Improvement District  
Salt Lake City, Utah

We have audited the accompanying basic financial statements of Sandy Suburban Improvement District as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Sandy Suburban Improvement District as of December 31, 2006, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 9, 2007 on our consideration of Sandy Suburban Improvement District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 7 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Sandy Suburban Improvement District. The schedule of impact fees is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Pinnock, Robbins, Posey & Richins*

May 9, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Sandy Suburban Improvement District's (the District) annual financial report presents our analysis of the District's financial performance during the year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the District's financial activities.

### **Financial Highlights:**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$28,137,509 (net assets). Of this amount, \$14,442,608 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,553,555. The increase is attributable to an increase in sewer service fees (effective January 4, 2006) and the property tax valuation.
- The District issued general obligation refunding bonds in the amount of \$6,270,000. The proceeds were used to defease portions of existing general obligation bonds. Overall, bonded debt decreased by \$511,450.

### **Overview of Financial Report:**

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's analysis of the District's financial condition and performance.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. They include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the District on a full accrual historical cost basis. While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of business activities over the course of the year and information as to how the net assets changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, non-capital financing, capital and related financing, and investing activities. In other words, it provides information regarding where the cash came from and how it was used, and the change in cash balance during the reporting period. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

### **Financial Analysis:**

To begin our analysis, a summary of the District's balance sheet is presented in the schedule attached. This section will discuss and analyze significant differences between the years ended December 31, 2005 and 2006.

**Sandy Suburban Improvement District  
Condensed Balance Sheet**

	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 26,290,277	\$ 24,385,099
Capital Assets	<u>16,327,128</u>	<u>15,897,557</u>
<b>Total Assets</b>	<b><u>\$ 42,617,405</u></b>	<b><u>\$ 40,282,656</u></b>
Current Liabilities	\$ 1,186,039	\$ 848,395
Noncurrent Liabilities	<u>13,293,857</u>	<u>13,850,307</u>
<b>Total Liabilities</b>	<b><u>14,479,896</u></b>	<b><u>14,698,702</u></b>
Net Assets Invested in Capital Assets, Net of Related Debt	8,473,447	8,052,553
Net Assets Restricted	5,221,454	6,455,303
Net Assets Unrestricted	<u>14,442,608</u>	<u>11,076,098</u>
<b>Total Net Assets</b>	<b><u>28,137,509</u></b>	<b><u>25,583,954</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 42,617,405</u></b>	<b><u>\$ 40,282,656</u></b>

The balance sheet includes all of the District's assets and liabilities, and equity which is categorized as either invested in capital assets, net of related debt; restricted; or unrestricted. Net assets may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$28,137,509 at the end of the year. A portion of the District's net assets, \$8,473,447 (30%), reflects its investment in capital assets (e.g., land, buildings, sewer lines and equipment) net of related debt. The District uses these capital assets in its daily operations; consequently, they are not available for future spending. An additional portion of the District's net assets, \$5,221,454 (19%) represents resources that are subject to external restrictions on how they may be used.

While the balance sheet shows the change in financial position of net assets, the summary of the District's statements of revenues, expenses and changes in net assets, provides information regarding the nature and source of these changes as seen in the following schedule.

**Sandy Suburban Improvement District  
Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 2,182,931	\$ 1,632,656
Non-operating Revenues	<u>3,983,508</u>	<u>3,201,607</u>
<b>Total Revenues</b>	<b><u>6,166,439</u></b>	<b><u>4,834,263</u></b>
Depreciation and Amortization Expense	485,331	459,881
Other Operating Expense	2,508,814	2,285,289
Non-operating Expense	<u>1,034,245</u>	<u>901,817</u>
<b>Total Expenses</b>	<b><u>4,028,390</u></b>	<b><u>3,646,987</u></b>

**Sandy Suburban Improvement District**  
**Condensed Statement of Revenues, Expenses, and Changes in Net Assets (Continued)**

	<u>2006</u>	<u>2005</u>
Income before Capital Contributions	\$ 2,138,049	\$ 1,187,276
Capital Contributions	<u>415,506</u>	<u>431,446</u>
Change in Net Assets	2,553,555	1,618,722
Net Assets - Beginning of Year	<u>25,583,954</u>	<u>23,965,232</u>
Net Assets - Ending of Year	<u>\$ 28,137,509</u>	<u>\$ 25,583,954</u>

Net assets increased in 2006 by \$2,553,555, compared to \$1,618,722 in 2005. Key elements of this increase are as follows:

- Effective January 1, 2006, residential sewer service fees increased from \$9 to \$13.54 per month.
- An increase in property valuation led to an increase in property tax revenue.

**Capital Asset and Debt Administration:**

**Capital Assets.** The District's investment in capital assets as of December 31, 2006, amounts to \$16,327,128 (net of accumulated depreciation). This investment in capital assets includes land, buildings, sewer systems, and machinery and equipment. The District's investment in capital assets for the current fiscal year increased by 3% overall.

Major capital asset events during the current fiscal year included the following:

- Developer contributed sewer lines – \$415,506
- Purchase of jet wash truck – \$268,053
- Purchase of TV truck – \$151,639

**Capital Assets**  
**Net of Depreciation**

	<u>2006</u>	<u>2005</u>
Land	\$ 11,750	\$ 11,750
Buildings	3,724,748	3,828,139
Sewer lines	11,770,923	11,622,092
Trucks and mobile equipment	595,530	245,845
Line and shop equipment	11,717	15,042
Furniture and fixtures	77,230	85,004
Computers and software	82,284	56,841
Construction-in-progress	<u>52,946</u>	<u>32,844</u>
<b>TOTAL</b>	<u><b>\$ 16,327,128</b></u>	<u><b>\$ 15,897,557</b></u>

Additional information on the District's capital assets can be found in Note 3.

**Long-Term Debt.** At the end of the current fiscal year, the District had total debt of \$13,788,857. The debt represents bonds backed by the full faith and credit of the District. The District's debt decreased by \$511,450 during the current fiscal year, as a result of debt service payments during the current year. The District also issued \$6,270,000 general obligation refunding bonds, series 2006, during the current year to defease portions of the 2002 and 2005 general obligation bonds.

### Long-Term Debt

	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 14,080,000	\$ 14,210,000
Unamortized bond premiums	153,311	90,307
Unamortized amount on refunding	<u>(444,454)</u>	<u>—</u>
 TOTAL	 <u>\$ 13,788,857</u>	 <u>\$ 14,300,307</u>

Additional information on the District's long-term debt can be found in Note 7.

#### Final Comments:

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the General Manager of the Sandy Suburban Improvement District, 8855 South 700 West, Sandy, UT 84070.

SANDY SUBURBAN IMPROVEMENT DISTRICT

BALANCE SHEET

DECEMBER 31, 2006

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 11,804,416
Accounts receivable	90,436
Property tax receivable	104,241
Unremitted tax liens	77,539
Note receivable - current portion	<u>18,830</u>

TOTAL CURRENT ASSETS 12,095,462

NONCURRENT ASSETS:

Restricted cash and cash equivalents:	
General obligation bond construction fund	5,221,454
Insurance reserve fund	159,446
Note receivable, net of current portion	393,587
Capital assets (net of accumulated depreciation)	16,327,128
Investment in South Valley Water Reclamation Facility	8,201,606
Deferred bond issuance costs, net	<u>218,722</u>

TOTAL NONCURRENT ASSETS 30,521,943

TOTAL ASSETS \$ 42,617,405

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 546,005
Accrued interest payable	99,014
Construction bonds payable	46,020
General obligation bonds - current portion	<u>495,000</u>

TOTAL CURRENT LIABILITIES 1,186,039

NONCURRENT LIABILITIES:

General obligation bonds payable (net of unamortized premiums and unamortized deferred amounts on refunding)	<u>13,293,857</u>
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TOTAL NONCURRENT LIABILITIES 13,293,857

TOTAL LIABILITIES 14,479,896

NET ASSETS:

Invested in capital assets, net of related debt	8,473,447
Restricted for capital improvements	5,221,454
Unrestricted	<u>14,442,608</u>

TOTAL NET ASSETS 28,137,509

TOTAL LIABILITIES AND NET ASSETS \$ 42,617,405



**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

OPERATING REVENUES:

Sewer service charges	\$ 2,180,620
Other	<u>2,311</u>

TOTAL OPERATING REVENUES	<u>2,182,931</u>
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OPERATING EXPENSES:

South Valley Water Reclamation Facility operating expenses	831,881
Maintenance and inspection of lines	87,936
Salaries and wages	774,765
Payroll taxes and benefits	367,265
Professional fees	162,256
Office supplies and expenses	136,833
Insurance	58,590
Depreciation and amortization	485,331
Other	<u>89,288</u>

TOTAL OPERATING EXPENSES	<u>2,994,145</u>
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OPERATING (LOSS)	<u>(811,214)</u>
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NON-OPERATING REVENUES (EXPENSES):

Property taxes	2,771,158
Investment earnings	804,560
Impact fees	407,790
Interest expense	(519,105)
(Loss) on disposal of assets	(10,653)
Equity in net loss of South Valley Water Reclamation Facility	<u>(504,487)</u>

TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>2,949,263</u>
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INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>2,138,049</u>
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DEVELOPER CONTRIBUTED SEWER LINES	<u>415,506</u>
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CHANGE IN NET ASSETS	2,553,555
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NET ASSETS - BEGINNING OF YEAR	<u>25,583,954</u>
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NET ASSETS - END OF YEAR	<u>\$ 28,137,509</u>
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**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 2,138,824
Payments to suppliers	(1,065,762)
Payments to employees	<u>(1,142,030)</u>
NET CASH (USED IN) OPERATING ACTIVITIES	<u>(68,968)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Property taxes	<u>2,719,828</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>2,719,828</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Impact fees received	407,790
Payment of bond issuance costs	(100,000)
Acquisition and construction of capital assets	(496,174)
Principal payments - note receivable	18,106
Principal paid on bonds	(450,000)
Interest paid on bonds	<u>(526,167)</u>
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,146,445)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital acquisitions in South Valley Water Reclamation Facility	(1,899,978)
Refund of member deposits to South Valley Water Reclamation Facility	102,326
Interest received	<u>804,560</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(993,092)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	511,323
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>16,673,993</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 17,185,316</u>
CASH APPEARS ON THE BALANCE SHEET AS FOLLOWS:	
Cash and cash equivalents - unrestricted	\$ 11,804,416
Cash and cash equivalents - restricted	<u>5,380,900</u>
	<u>\$ 17,185,316</u>

SANDY SUBURBAN IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2006

RECONCILIATION OF OPERATING (LOSS) TO NET CASH

(USED IN) OPERATING ACTIVITIES:

Operating (loss)	\$ (811,214)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation and amortization	485,331
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(46,820)
Unremitted tax liens	2,713
Increase (decrease) in:	
Accounts payable	255,002
Construction bonds payable	<u>46,020</u>

NET CASH (USED IN) OPERATING ACTIVITIES

\$ (68,968)

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The District received additions to the collection system in the amount of \$415,506 in 2006, which represent the fair value of sewer trunk lines deeded to the District. These additions were accounted for as capital contributions in the statement of revenues, expenses and changes in net assets.

The District recognized its proportionate share of equity in the net loss of South Valley Water Reclamation Facility in the amount of \$504,487 for the year ended December 31, 2006.

# SANDY SUBURBAN IMPROVEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **A. Reporting Entity**

Sandy Suburban Improvement District (the District) is a special service district governed by an elected three member board. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The District is not reported as a component unit of any other entity, and the District has no blended or discretely presented component units.

#### **B. Measurement Focus and Basis of Accounting**

The District is an enterprise fund, which is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis are financed or recovered primarily through user charges. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are sewer service charges. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

#### **C. Statement of Cash Flows**

The District recognized deposits and investments and restricted investments as cash and cash equivalents. These amounts include cash in bank and deposits and investments with maturities of three months or less.

#### **D. Restricted Cash and Cash Equivalents**

Certain resources set aside for capital improvements are classified as restricted on the balance sheet because their use is limited by applicable bond covenants. Other cash accounts set aside for insurance reserves are also restricted.

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Arbitrage Rebates**

Under the Internal Revenue Code, arbitrage earnings on certain bond issues may be subject to rebate. As of December 31, 2006, the District has not accrued any estimated arbitrage rebates payable.

**F. Allowance for Doubtful Accounts**

The District does not record bad debt expense or an allowance for doubtful accounts on sewer fees. Unpaid fees are certified to the county and attached as liens on the related real estate, see Note 5.

**G. Capital Assets**

Capital assets are stated at cost. Normal maintenance and repairs that do not materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. The net book value of property sold or otherwise disposed of is removed from the property, and accumulated depreciation accounts and the resulting gain or loss is included in income.

Capital assets donated to the District are recorded at the estimated fair value at the date of donation.

Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. No interest was capitalized during the current fiscal year.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Sewer lines	60 years
Trucks and mobile equipment	5-10 years
Line and shop equipment	5-10 years
Furniture and fixtures	5-10 years
Computers and software	5 years

**H. Joint Venture**

The District accounts for its interest in a joint venture using the equity method of accounting.

**I. Vacation, Sick Leave and Other Compensated Absences**

District employees are entitled to certain compensated absences based on their length of employment. Although vacation does not accumulate from year to year, an employee may receive compensation for up to forty hours of unused vacation leave accrued during that year. Employees must request compensation in lieu of vacation leave no later than November 15 of each year and will be paid at the end of November. Employees are allowed to accumulate up to two hundred hours of sick leave; however, there is no cash value for accumulated sick leave upon retirement, death or termination.

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Property Tax Revenues**

Property tax revenues are used to meet the operating and maintenance expenses of the District. Property taxes are levied on January 1st based on the assessed values of property as listed on the previous May 31st. Assessed values are an approximation of market value. The county assessor must make a re-evaluation of all real property every five years. Property taxes are delinquent after November 30. The District's tax rate for 2006 is .001063, which is comprised of .000586 for operations and maintenance and .000477 for debt service. The statutory maximum set by the state for operations and maintenance is .000800. There is no statutory maximum for the reduction of general obligation bonds.

**K. Budgetary Accounting**

For management and control purposes, the District adopts and maintains an annual cash budget. Non-cash items such as depreciation and the loss from the District's joint venture are not included. Items budgeted, but not expended, are not carried over to succeeding years. Budgeted items must be re-appropriated each year.

**L. Use of Estimates in the Preparation of Financial Statements**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**M. Risk Management**

The District has exposure to liabilities due to the nature of its operations. The District purchases insurance from an independent agent to provide worker's compensation coverage and general liability and property insurance. There were no significant reductions in insurance coverage from the prior year.

**2. DEPOSITS AND INVESTMENTS**

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits**

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ —	\$ 700
Cash on deposit	<u>287,679</u>	<u>286,879</u>
 TOTAL	 <u>\$ 287,679</u>	 <u>\$ 287,579</u>

***Custodial Credit Risk:*** Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2006, \$87,679 of the District's bank balances of \$287,679 were uninsured and uncollateralized.

**B. Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "a" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. DEPOSITS AND INVESTMENTS (CONTINUED)**

As of December 31, 2006, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$16,897,737	\$16,897,737	\$ -	\$ -	\$ -

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of December 31, 2006, the District's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

**3. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 11,750	\$ -	\$ -	\$ 11,750
Construction-in-progress	32,844	25,255	(5,153)	52,946
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	44,594	25,255	(5,153)	64,696



# SANDY SUBURBAN IMPROVEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 3. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings	\$ 4,081,154	\$ 1,357	\$ —	\$ 4,082,511
Sewer lines	15,983,266	422,106	(10,000)	16,395,372
Trucks and mobile equipment	585,993	419,693	—	1,005,686
Line and shop equipment	81,145	—	—	81,145
Furniture and fixtures	136,852	5,973	—	142,825
Computer and software	109,620	37,296	—	146,916
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>20,978,030</u>	<u>886,425</u>	<u>(10,000)</u>	<u>21,854,455</u>
Less accumulated depreciation for:				
Buildings	(253,015)	(104,748)	—	(357,763)
Sewer lines	(4,361,174)	(267,775)	4,500	(4,624,449)
Trucks and mobile equipment	(340,148)	(70,008)	—	(410,156)
Line and shop equipment	(66,103)	(3,325)	—	(69,428)
Furniture and fixtures	(51,848)	(13,747)	—	(65,595)
Computers and software	(52,779)	(11,853)	—	(64,632)
TOTAL ACCUMULATED DEPRECIATION	<u>(5,125,067)</u>	<u>(471,456)</u>	<u>4,500</u>	<u>(5,592,023)</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>15,852,963</u>	<u>414,969</u>	<u>(5,500)</u>	<u>16,262,432</u>
CAPITAL ASSETS, NET	<u>\$ 15,897,557</u>	<u>\$ 440,224</u>	<u>\$ (10,653)</u>	<u>\$ 16,327,128</u>

### 4. INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY

During 1978, pursuant to the Interlocal Cooperation Act of the State of Utah, the District entered into a joint venture with two other special districts and two other cities. The joint venture was organized to construct and operate a regional sewage treatment facility, for the benefit of the five members. The five members and their related ownership interests are listed below:

South Valley Sewer District	34.72%
West Jordan City Corporation	28.22%
Sandy Suburban Improvement District	20.17%
Midvalley Improvement District	10.11%
Midvale City Corporation	6.78%

South Valley Water Reclamation Facility is in the process of expanding its operations from 38 million gallons per day to 50 million gallons per day. The plant ownership interest will be adjusted in accordance with the proportion of the expansion paid by the participating members. The estimated new ownership percentages are as follows:

South Valley Sewer District	32.40%
West Jordan City Corporation	36.44%
Sandy Suburban Improvement District	17.32%
Midvalley Improvement District	7.68%
Midvale City Corporation	6.16%

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY (CONTINUED)**

A five member board administers the joint venture. Each member appoints one member to the board, and voting power is not related to ownership. Therefore, each member is equal to another for voting privileges.

The joint venture is responsible for adopting a budget and financing its operations, subject to the approval by each of the five members. Each member is billed its share of operating cost based on the members' usage and ownership percentage. The District incurred treatment fees and operating costs of \$831,881 for 2006.

The District accounts for its investment in South Valley Water Reclamation Facility using the equity method of accounting. The following schedule is a summary of the financial information from South Valley Water Reclamation Facility as of and for the year ended December 31, 2006:

Current and other assets	\$ 25,326,415
Capital assets	<u>59,124,624</u>
Total assets	<u>\$ 84,451,039</u>
Current liabilities	\$ 4,083,253
Non-current liabilities	20,578,121
Net assets	<u>59,789,665</u>
Total liabilities and net assets	<u>\$ 84,451,039</u>
Operating revenues	\$ 7,905,836
Operating expenses	(8,090,503)
Depreciation expense	<u>(3,540,985)</u>
Net loss from operations	<u>(3,725,652)</u>
Non-operating revenues (expenses)	<u>184,667</u>
Net loss before contributions	(3,540,985)
Members' contributions	14,487,284
Member distributions	<u>(500,000)</u>
Change in net assets	10,446,299
Members' net assets at beginning of year	49,139,366
Prior period adjustment	<u>204,000</u>
Total members' net assets at end of year	<u>\$ 59,789,665</u>

Audited financial statements are available at South Valley Water Reclamation Facility, 7495 South 1300 West, West Jordan, Utah 84084.

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY (CONTINUED)**

The following schedule shows the District's investment activity in South Valley Water Reclamation Facility for the year ended December 31, 2006:

Investment, beginning of year	\$ 6,908,441
District's allocated net loss	(504,487)
Additional capital contributions	1,899,978
Member distributions	<u>(102,326)</u>
Investment, end of year	<u>\$ 8,201,606</u>

**5. UNREMITTED PROPERTY LIENS**

Unremitted property liens as of December 31, 2006, in the amount of \$77,539, represent the total amount of past due accounts receivable which have been referred to the Salt Lake County Treasurer's office for attachment to the related real estate property as liens. No reserve for uncollectible accounts has been established since the property cannot be sold or transferred without first clearing those liens from the records.

**6. NOTES RECEIVABLE**

Notes receivable consist of amounts due from an entity for the purchase of property from the District in 2003. The note receivable bears interest at 4%, is payable in annual installments, and has a term of ten years, beginning on November 30, 2003, with a balloon payment of \$300,000 due on November 30, 2013.

	<u>2006</u>
Total notes receivable	\$ 412,417
Less current portion	<u>(18,830)</u>
Notes receivable, net of current portion	<u>\$ 393,587</u>

Presented below is a summary of notes receivable payment requirements to maturity by years:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 18,830	\$ 16,497	\$ 35,327
2008	19,583	15,744	35,327
2009	20,367	14,960	35,327
2010	21,182	14,145	35,327
2011	22,029	13,298	35,327
2012-2013	<u>310,426</u>	<u>24,901</u>	<u>335,327</u>
TOTAL	<u>\$ 412,417</u>	<u>\$ 99,545</u>	<u>\$ 511,962</u>

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**7. LONG-TERM DEBT**

***General Obligation Bonds***

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$15,000,000. During the year, general obligation bonds totaling \$6,270,000 were issued to advance refund a portion of the original general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Sewer collection systems/administration building	4.00 – 5.15%	\$ 1,995,000
Sewer treatment facilities/collection systems	3.50 – 4.25%	5,815,000
Refunding	3.60 – 5.00%	<u>6,270,000</u>
		<u>\$ 14,080,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 495,000	\$ 584,300	\$ 1,079,300
2008	515,000	564,328	1,079,328
2009	535,000	543,131	1,078,131
2010	565,000	520,663	1,085,663
2011	580,000	496,175	1,076,175
2012-2016	3,310,000	2,045,694	5,355,694
2017-2021	4,105,000	1,252,082	5,357,082
2022-2026	<u>3,975,000</u>	<u>340,984</u>	<u>4,315,984</u>
TOTAL	<u>\$14,080,000</u>	<u>\$ 6,347,357</u>	<u>\$ 20,427,357</u>

***Advances Refundings***

The government issued \$6,270,000 of general obligation refunding bonds to provide resources to purchase cash and non-callable direct full faith and credit obligations of the United States of America that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$5,950,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$456,460. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next eighteen years by \$257,035 and resulted in an economic gain of \$175,886.

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**7. LONG-TERM DEBT (CONTINUED)**

Long-term debt activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
General obligations bonds	\$14,210,000	\$ 6,270,000	\$(6,400,000)	\$14,080,000	\$ 495,000
Add bond premiums	90,307	109,379	(46,375)	153,311	—
Less deferred amount on refunding	—	(456,460)	12,006	(444,454)	—
<b>TOTAL BONDS PAYABLE</b>	<b><u>\$14,300,307</u></b>	<b><u>\$ 5,922,919</u></b>	<b><u>\$(6,434,369)</u></b>	<b><u>\$13,788,857</u></b>	<b><u>\$ 495,000</u></b>

**8. PENSION PLAN**

***Plan Description***

The District contributes to the Local Governmental Contributory Retirement System (Contributory System) and Local Governmental Noncontributory Retirement System (Noncontributory System), all of which are cost sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah State Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling (800) 365-8772.

***Funding Policy***

All District employees are eligible to participate. In the Local Governmental Noncontributory Retirement System, the District was required to contribute 11.09% of their annual covered salary from January through June 2006 and 11.59% from July through December 2006. The contribution rates are actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District made the following contributions, which were equal to the required contributions for each year:

	<u>Year Ended December 31,</u>	<u>Employee Paid Contributions</u>	<u>Employer Paid For Employee Contributions</u>	<u>Employer Contributions</u>	<u>Salary Subject to Retirement Contributions</u>
Local Governmental - Noncontributory	2006	N/A	N/A	\$ 84,758	\$ 747,053
	2005	N/A	N/A	77,042	694,698
	2004	N/A	N/A	66,502	641,188
401(k) Contributions	2006	\$ 16,902	\$ —		
	2005	15,026	—		
	2004	71,873	—		

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**9. IMPACT FEES**

The District collects connection fees that are defined as impact fees. The District must expend these impact fees on capital expenditures relating to the infrastructure of the District, South Valley Water Reclamation Facility construction, or building improvements. As allowed by law, the District's policy is to reimburse prior infrastructure costs before current expenditures. Therefore, the District had no impact fee reserves at December 31, 2006. Revenues from impact fees were \$407,790 for the year ended December 31, 2006.

**OTHER SUPPLEMENTARY INFORMATION**

**SANDY SUBURBAN IMPROVEMENT DISTRICT**

**SCHEDULE OF IMPACT FEES**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

Sandy Suburban Improvement District collects wastewater impact fees. The following is a recap of the impact fees outstanding by year of collection:

<u>Year Collected</u>	<u>Wastewater</u>
2006	\$ —
TOTAL	\$ —

The following capital projects are planned to use the impact fees shown above:

<u>Planned Capital Project</u>	<u>Projected Cost</u>	<u>Anticipated Start Date</u>
South Valley Water Reclamation Facility Phase 4 Construction	\$ 3,667,135	In process
Sewer Line Rehabilitation and Capacity Increase	\$ 2,500,000	2007





## PINNOCK, ROBBINS, POSEY & RICHINS

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### **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Sandy Suburban Improvement District

We have audited the financial statements of Sandy Suburban Improvement District as of and for the year ended December 31, 2006, and have issued our report thereon dated May 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Sandy Suburban Improvement District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sandy Suburban Improvement District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies described in the accompanying management letter to be significant deficiencies in internal control over financial reporting (items 1 through 8).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 3 through 8 to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sandy Suburban Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Trustees, management, and applicable regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Pinnock, Robbins, Posey & Richins

May 9, 2007



# PINNOCK, ROBBINS, POSEY & RICHINS

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## INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Trustees  
Sandy Suburban Improvement District

We have audited the financial statements of Sandy Suburban Improvement District, for the year ended December 31, 2006 and have issued our report thereon dated May 9, 2007. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Public Debt

Other Compliance Requirements  
Special Districts  
Truth in Taxation and Property Tax Limitation  
Impact Fees

The District did not receive any major or nonmajor State grants during the year ended December 31, 2006.

The management of Sandy Suburban Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Sandy Suburban Improvement District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

This report is intended for the use of Sandy Suburban Improvement District's management, Board of Trustees, and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

*Pinnock, Robbins, Posey & Richins*

May 9, 2007



## PINNOCK, ROBBINS, POSEY & RICHINS

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Wade K. Warkins, CPA

May 9, 2007

To the Board of Trustees  
Sandy Suburban Improvement District

As part of our audit of the financial statements of Sandy Suburban Improvement District (the District), professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting (internal control) that rise to the level of "significant deficiencies" or "material weaknesses" that we identified during our audit of the financial statements.

As we previously discussed, these deficiencies must be communicated even though management may already know about them and may have made a conscious decision to accept these risks because of cost or other considerations. Also, the independent auditor cannot be used as an internal control to overcome internal control deficiencies. With this in mind we are communicating the following matters.

In planning and performing our audit of the financial statements of the District as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

### **SIGNIFICANT DEFICIENCIES**

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

## **1. Accrued Wages Payable**

We noted during our audit a deficiency in the design of controls to ensure the proper recording of accrued wages payable. Accrued wages payable was not calculated or recorded.

### **Management's Response**

Management will calculate and accrue wages payable in future years.

## **2. Bond Premium/Deferred Bond Cost Amortization**

We noted during our audit a deficiency in the design of controls to ensure the proper recording of amortization of bond premiums and deferred bond issuance costs.

### **Management's Response**

Management is in the process of creating a schedule for amortization of bond premiums and deferred bond issuance costs on a monthly basis.

## **MATERIAL WEAKNESSES**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

### **1. Accounting Personnel**

The Company does not train its accounting personnel sufficiently in financial accounting and reporting to ensure correct accounting for more complex transactions or independently produce financial statements which comply with accounting principles generally accepted in the United States of America (GAAP). The Company relies on the financial statement audit procedures to identify certain necessary adjustments, reclassifications, and disclosures to produce GAAP financial statements.

### **Management's Response**

Management is utilizing continuous training opportunities for accounting personnel through county, state, and national organizations. The accounting department is also working toward issuing a comprehensive annual financial report (CAFR) for the December 31, 2007 audit.

### **2. Segregation of Duties**

We noted during our audit a deficiency in the operation of controls to ensure adequate segregation of duties in the cash receipts function. The same employees have custody of cash, can approve transactions, and perform general ledger maintenance, and there is a lack of management oversight over this function.

### **Management's Response**

Management has implemented new procedures for cash receipting to provide for adequate separation of duties. The accounting department is also drafting a new accounting procedures manual to ensure that accounting functions are performed properly.

### **3. Restricted Cash**

We noted during our audit a deficiency in the operation of controls to properly transfer restricted bond construction funds to the operating account to cover allowable expenditures. The restricted cash balance had a greater amount transferred out than the allowable costs justify.

#### **Management's Response**

Management has implemented a procedure using back up documentation to verify the restricted cash balance is correct.

### **4. Contributed Sewer Lines**

We noted during our audit a deficiency in the operation of controls to ensure that sewer lines contributed to the District by developers are properly recorded. Contributed lines received during the year were booked directly to fund equity.

#### **Management's Response**

Management will record contributed lines in the statement of revenues, expenses, and changes in net assets.

### **5. Advance Refunding of Bonds**

We noted during our audit a deficiency in the operation of controls to properly record general obligation refunding bonds during the year. The refunding of existing bonds and the resulting deferred loss on refunding were not recorded in the financial statements.

#### **Management's Response**

Management will take care to properly record transactions related to the issuance of bonds.

### **6. Equity Investment in South Valley Water Reclamation Facility**

We noted during our audit a deficiency in the operation of controls to ensure that the District's equity investment in South Valley Water Reclamation Facility (SVWRF) is properly recorded. Capital contributions made during 2006 were not booked to the equity investment account; furthermore, the District's share of the net loss of SVWRF for the year ended December 31, 2006 was not recorded in the financial statements.

#### **Management's Response**

Capital contributions to SVWRF will be booked to the equity investment account monthly.

\* \* \* \* \*

Sandy Suburban Improvement District's written responses to the significant deficiencies and material weaknesses identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, members of the board of trustees of the District, and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Pinnock, Robbins, Posey & Richins*

PINNOCK, ROBBINS, POSEY & RICHINS, PC